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Rothmans

OF PALL MALL CANADA LIMITED



ANNUAL MEETING
AND SPECIAL GENERAL MEETING
OF THE SHAREHOLDERS
TORONTO, ONTARIO, DECEMBER 18, 1968

REPORT OF THE PROCEEDINGS AND
THE ADDRESS OF THE PRESIDENT

DIRECTORS

JOEL WALKDON ALDRED

CHARLES FOWLER WILLIAMS BURNS

MAJOR GENERAL SIR FRANCIS DE GUINGAND,
K.B.E., C.B., D.S.O.

JOHN HERBERT DEVLIN

HAROLD SCANLON FOLEY

CHARLES ALBERT MASSEY

FREDERICK LAWRENCE PATTERSON

THE RIGHT HONOURABLE

LOUIS STEPHEN ST-LAURENT, P.C., C.C., Q.C., LL.D.

JOHN ELVIN SHAFFNER

WILMAT TENNYSON

OFFICERS

Chairman of the Board

THE RIGHT HONOURABLE

LOUIS STEPHEN ST-LAURENT, P.C., C.C., Q.C., LL.D.

President

JOHN HERBERT DEVLIN

Vice President Marketing

WILMAT TENNYSON

Vice President Finance and Treasurer

PAUL JACOBUS ERASMUS

Vice President and Secretary

ROBERT HOWIE HAWKES

Vice President Production

DANIEL DI IANNI

Vice President Personnel and Industrial Relations

GEORGE STEWART

Vice President Sales

ROBERT THOMAS LLOYD

Vice President Advertising

ROY HENRY NEWTON

SUMMARY OF THE PROCEEDINGS
OF THE ANNUAL AND
SPECIAL GENERAL MEETING
OF SHAREHOLDERS OF ROTHMANS OF
PALL MALL CANADA LIMITED

The Annual and Special General Meeting of Shareholders of the Company was held at the Royal York Hotel in Toronto on Wednesday, December 18, 1968.

Mr. John H. Devlin presided over the meeting. The minutes of the Annual General Meeting of Shareholders held on October 5, 1967, were approved and adopted. The Annual Report of the Directors, including the consolidated balance sheet, the consolidated statements of earnings, retained earnings and changes in working capital and auditors' report for the fiscal year ended June 30, 1968, were presented.

The Directors of the Company, whose terms of office expired at the meeting, were re-elected. Price Waterhouse & Co. were re-appointed as Auditors.

By-law No. 14 of the Company, providing for an application for supplementary letters patent to confirm the creation of 500,000 First Preferred Shares of the par value of \$100 each was sanctioned and approved.

The President's introductory remarks and address have been printed for the benefit of those Shareholders who were unable to attend the meeting.

The co-operation of Shareholders by personally attending the meeting or by returning their proxies is appreciated by your Board of Directors.

Toronto, Ontario
December 23, 1968

INTRODUCTORY REMARKS

J. H. DEVLIN

I would like to apologize to shareholders for the lateness of this Annual Meeting. As you know, we normally hold the Annual Meeting in early October, and it is our intention to revert to this date in future years. This fall we were working on a plan which would have required shareholder approval. When this was abandoned, it was too late to re-schedule the meeting for October or November.

I would also like to say how much I regret that our Chairman, The Right Honourable Louis St-Laurent, is not able to be with us today. As most of you will recall, Mr. St-Laurent had a serious fall some months ago. After a lengthy period in hospital, I am pleased to tell you that he is recovering satisfactorily but still unable to travel.

For more than eight years, it has been an honour and pleasure for me, as I know it has been for my fellow directors, to work with our Chairman, and I hope that we may have many more years in which to benefit from his great wisdom and experience.

In his absence, it seems appropriate to pay tribute to this great Canadian statesman, and I would like to repeat a statement I made at our Annual Meeting in 1966:

“Mr. St-Laurent exemplifies the concept that the French and English cultures in our country can live in harmony and contribute materially to each other’s growth. His influence on the development of Canada as a nation has been significant. He represented Canada at the signing of the UN charter; had a strong voice in the framing of terms for NATO; and established our Department of External Affairs as an influential force amongst world powers. At home, he appointed the first Canadian as Governor General; built the foundations for the Canada Council; and was instrumental in persuading the U.S. to join Canada in the building of the St. Lawrence Seaway. In and out of politics, his ability to command universal respect

has been his greatest asset. In 1949, while campaigning in British Columbia, a reporter, noticing the numbers of children about and Mr. St-Laurent's easy way with them, created a term of endearment never before accorded a Canadian public figure. Uncle Louis, the reporter said, is going to be tough to beat."

I know all shareholders and Directors will join me in wishing Mr. St-Laurent a speedy and full recovery.

Mr. Shirley Greenshields Dixon has resigned as a Director of your Company, due to ill health. Mr. Dixon was one of the original Directors following our issue of shares in 1961, and we shall miss his wise counsel at our meetings. We trust that his health will improve, and wish him a well-earned rest.

At the same time, I am very happy to welcome our newest board member, Mr. Frederick L. Patterson, the President of Brooke Bond Canada Limited. We are very happy to have the benefit of his experience and knowledge.

I would also like to convey to you the personal regrets of Major General Sir Francis de Guingand and Mr. Harold Foley for not being able to be with us today.

PRESIDENT'S ADDRESS

J. H. DEVLIN

It is now my pleasure to address the meeting, which I will do by first referring to some of the highlights in the annual report.

For the sixth consecutive year, sales and earnings set all-time records. Sales were up 4.6% and your Company continued to increase its share of total market. Earnings were up 8.2%, and earnings per share increased from \$2.35 to \$2.54.

On June 17, your Company paid its first dividend of 25¢ per share, and your Board of Directors has now established a quarterly dividend of 25¢ per share, based on an annual dividend rate of \$1.00. I would like to thank our many shareholders for their patience while we were putting our house in order to allow us to make dividend payments.

On June 6, your Company purchased 2,400,000 common shares in Canadian Breweries from Argus Corporation at a price of \$12 per share, or a total price of \$28,800,000. The acquisition was made through Rothmans Investments Limited, in which your Company and Rothmans of Canada Limited each hold a 50% interest. Your Company agreed with Rothmans of Canada Limited to acquire its 50% interest in Rothmans Investments Limited, as soon as additional long-term financing could be arranged.

This new alliance brought together the brewing and managerial talents of Canadian Breweries with the proven marketing capabilities of Rothmans—a natural marriage. Six nominees from Rothmans immediately joined the Board of Canadian Breweries, including myself as Chairman and Mr. Tennyson as Vice President Marketing. In addition, four senior marketing men from Rothmans were assigned to senior marketing positions in Canadian Breweries.

Since June, a great amount of work has gone into the marketing area of Canadian Breweries, including centralization of all facets of the market-

ing division, planning of brand and creative strategies, and consideration of new brand planning.

As well as the comprehensive study of the Canadian beer market, active consideration has been given to the long-term potentialities of Carling Brewing, the American subsidiary, and other off-shore investments of Canadian Breweries Limited.

During this period of time, negotiations were carried on between the Managements and Boards of Rothmans and Canadian Breweries, in an effort to bring the companies closer together. We believe that further integration of operations of the two companies would be beneficial to the shareholders of both companies. Of course, the idea of merger had the full blessing of both Boards of Directors.

Unfortunately, the various plans considered had to be abandoned, and no further discussions on this matter have taken place between the two companies since October.

This reversal in our planning has in no way shaken our faith and belief in the long-term potentialities of CBL. I believe Rothmans shareholders will benefit from this investment in Canadian Breweries.

As announced in the press on October 18, 1968, Rothmans of Canada Limited purchased all the shares of Larus & Brother Company, Inc., of Richmond, Virginia. Larus was founded in 1877 and enjoys a world-wide reputation for its pipe tobaccos, the most well-known brands being Edgeworth, Holiday, John Rolfe, V.I.P., and Blend Eleven. Larus also manufactures Domino and Holiday cigarettes for the domestic market.

In making the purchase of Larus, the Rothmans World Group had agreed with your Management and Board of Directors that Rothmans of Pall Mall Canada Limited could obtain a 50% interest in the Larus operation, at a cost of \$1.5 million (U.S.).

The present sales and earnings of Larus are relatively small. Sales are approximately \$12 million, and profit is about \$200,000. We feel, however, there is great potential for this company, and Larus—"The House of Edgeworth"—will be operated as a base for expansion of both the U.S.A. domestic and export markets. Three Rothmans associated companies—Rothmans Australia, Rothmans New Zealand, and Martin Brinkmann of Germany—are already marketing Edgeworth Pipe Tobacco, and it is likely that other Rothmans Group countries will also participate.

We are pleased to have with us this morning the former President of Larus, Mr. Brooks George, who has recently been appointed Chairman of that company. Also the newly-appointed President of Larus (formerly Vice President Sales of Rothmans), Mr. Tony Gauntley. Gentlemen, we wish you great success, and will watch your progress with interest.

As shareholders undoubtedly know, your Company plans to finance the acquisition of the interest in both Larus and Canadian Breweries by raising an additional \$20,000,000 in the form of Preferred share capital. The details of this financing are outlined in the information circular mailed to all shareholders with the annual report. You will be asked this morning to vote on By-law No. 14 and, assuming approval, it is planned to proceed with the issue early in 1969; however, the timing will depend on financial conditions at that time.

I would now like to deal with the Canadian cigarette market and the sales of your Company. As mentioned in the annual report, cigarette sales in Canada were adversely affected in the early part of 1968 by higher cigarette prices. Mainly as a result of increases in Federal and Provincial taxes on cigarettes, the consumer price increased as much as 19% in Newfoundland, 17% in Ontario, and 13% in Quebec.

During the fiscal year ended June 30, Canadian cigarette production, as reported by the Dominion

Bureau of Statistics, declined by 3.3%, from 47.2 billion to 45.7 billion. During the same period, your Company's sales decreased by 1.5%, from 10.3 million to 10.2 million; thus the Company continued to increase share of market.

Since June, Canadian cigarette sales appear to be returning to normal. Total Canadian cigarette production for the four months ended October 31, 1968 showed an increase of 2.5% compared to the same four months in 1967. Rothmans sales for the same period showed an increase of 7.3%. During the first five months of the financial year, your Company held 33% of the total export market; 24% of the total domestic cigarette market, and the monthly market share was showing a continuing increase.

On June 10 we launched "Ransom," the world's first king size cigarette with the Strickman Filter. As production increased, the distribution was extended across the country, and today the brand is in national distribution. However, I would ask our shareholders and customers to be patient if Ransom is not always available. The brand got an immediate lift from the recent tar and nicotine ratings published by the Federal Government, where Ransom was listed as lowest in tar and nicotine of all Canadian cigarettes.

Craven "A" has also shown a substantial sales gain, since it was rated as the lowest in tar and nicotine of all the established brands on the market.

Let us take a brief look at our other brands. Rothmans King Size, our largest-selling brand, is, as you may know, the world's largest-selling king size Virginia cigarette. It also continues to be Canada's leading king size cigarette by far. In spite of declining industry sales, Rothmans King Size established a new record for our financial year ended June 30, 1968, and continues to gain in sales and share of market.

Number 7 continues to perform well in the fast-growing coupon and give-away market. Our latest entry in that field, Sportsman in a 68 mm. version, was introduced in Quebec in June and

extended to British Columbia in September. This brand has received outstanding consumer acceptance in the markets where it has been introduced, and in the relatively short time since it was introduced in Quebec, Sportsman has captured over 5% of that market. In British Columbia, we have extended the Sportsman 68 mm. gift coupon scheme to both Sportsman King Size and Sportsman Plain and, as a result, both these versions of Sportsman are showing a substantial increase in sales. As a result of the success of Sportsman 68 mm. in the markets where it has been launched, we plan to proceed with national distribution in the coming year.

Craven Menthol also increased its sales in a declining market last year, and continues to grow in sales and share of both the total and menthol markets.

Dunhill and St. Moritz Menthol, our two brands in the luxury length class, continue to do well; however, due to premium price, this market is relatively small.

Looking at the overall market, the trend to filter cigarettes is continuing and will probably accelerate following the Government report on tar and nicotine readings. Filter cigarettes should soon represent in excess of 80% of the Canadian cigarette market. King Size filter, including luxury length, is also increasing its share of market, which we soon expect to amount to 50%. As mentioned in our annual report, coupon and give-away brands continue to increase their share of market and now represent approximately 23% of the total market. The menthol cigarette share of total market remains steady at approximately 6%.

Strategically, our brands at the present time seem to be very well placed in the market, and I personally am very optimistic about our ability to further increase share of market in the months ahead.

The auctions for the 1968 tobacco crop are currently in progress, and it appears that this

year's crop will total about 205 million pounds, compared to 196 million pounds in 1967. The 1967 crop sold for an average price per pound of 69.1¢. Up to Friday, December 13, 60 million pounds of tobacco had been sold at an average price of 69.3¢. As in the past, the average price paid for tobacco by Rothmans will be higher than the industry, to ensure the highest possible quality in our products.

The faithful and willing service of approximately 1,300 Canadian employees remains the basis of our success. Our sincere thanks go out to them and to their families.

Finally, a word of thanks to our shareholders for their continued confidence; to our suppliers and distribution trade for their co-operation; to the tobacco farmers for the high quality of tobacco delivered to us; to the Marketing Board and various Government departments for their friendly service; to our bankers for their faithful support and help, and to our auditors, legal advisors, and advertising agency for the conscientious execution of their duties.

To my co-directors, I wish to express my thanks for their loyalty, and to say how much I appreciate the help they have given me personally.

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